OFFSHORE OUTSOURCING: CURRENT AND FUTURE EFFECTS ON AMERICAN IT INDUSTRY

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Outsourcing has taken on new meaning for the American IT industry. Although most companies have outsourced selected IT projects and functions for many years, the growth in offshore outsourcing has exploded in size as companies have sought lower labor costs and other benefits. This article synthesizes recent published reports to provide an overview of the status of offshore IT outsourcing and some current and projected effects on the American IT industry. [Editor's Note: for discussions of management issues associated with offshore outsourcing, see the Summer 2004 issue of Information Systems Management.]

The most common definition of outsourcing includes turning over a firm's computer operations, network operations, software development and maintenance, or other IT functions to a provider for a specified time, generally at least a few years. Outsourcing can be between two U.S. companies or with a company in another country. Offshoring is a term often used in the United States to specifically refer to outsourcing to another country, most often today to India, Ireland, the Philippines, China, and other countries. However, the terms are also used interchangeably and continue to be throughout this article.

What is driving all the IT outsourcing? Lower labor costs are the primary driver, but companies also want to focus on their core businesses and create value for their shareholders. Recently, companies even move beyond nonstrategic functions into important operational and strategic functions. For example, E.piphany outsources 15 percent of its R&D workforce to a company in India. De Ramos stated:

We need to do what's best for shareholders, and that is to have the most efficient development organization while maintaining the quality it takes to be an innovator in the industry.

The effects of outsourcing are being discussed at great lengths throughout the IT industry. Yet what is happening in the IT industry today is similar to what happened, and continues to happen, throughout the manufacturing industry and is beginning to happen to other business processes and functions. As stated by Rakesh Kumar, president of operations-outsourcing venture TCX Inc.:

Every industry has done this outsourcing... The only difference from industry to industry is at what point the outsourcing curve turns over — at 20 percent, 50 percent, or 100 percent of the U.S. capacity.

This article will explore what companies are outsourcing and why, some potential costs due to outsourcing, the effects IT outsourcing
EVOlUTION OF OUTsOURCING

IT outsourcing essentially began with large deals lasting ten years or more and consisted of outsourcing all of a company's data center operations. The goal of these large data center contracts was purely financial and companies wanted to save about 15 percent of the costs of doing the work themselves. Several problems occurred with these arrangements, including a lot of finger-pointing back and forth when something didn't run smoothly. There were no incentives to work together and it was largely a "we versus them" mindset.

Then came transitional outsourcing in the early 1990s, when companies found themselves unable to support development of new client/server systems while still maintaining their legacy systems. They often chose to outsource either the maintenance of the current system so they could devote resources to new designs, or vice versa. In addition, the 1990s also saw best-of-breed outsourcing, where companies used selective outsourcing to spread the work out to the "experts" in each service area, and collaborative outsourcing, where one company becomes the prime contractor for numerous facets of IS operations but some of the work is provided by other External Service Providers (ESPs).

As outsourced functions such as data centers, desktop support, and other standard IT areas became well understood during the late 1990s, ESPs began specializing in specific functional areas where they would handle business processes as well as the underlying IT. Business Process Outsourcing (BPO), as this is called, is defined as outsourcing all (or most) of a reengineered process that has a large IT component, such as logistics or customer service. It also moves outsourcing to a new level, whereby ESPs could be measured and paid based on outcomes.

The late 1990s brought Y2K compliance projects, and many companies outsourced much of their Y2K compliance work. Offshore outsourcing to India, Ireland, and other countries grew significantly during this time.

Carmel and Agarwal (2002) have proposed a four-stage maturation model of offshore outsourcing. Stage 1, Offshore Bystander, includes companies that outsource domestically only, usually because their mindset is focused on the United States or they lack the ability to manage geographically dispersed operations. Stage 2, Offshore Experimenters, typically outsource a project or two to cut costs but there is little or no coordination among the groups. In Stage 3, Proactive Cost Focus, companies have the capability to manage their offshore relationships and therefore are more willing to outsource their noncore functions, such as maintaining current systems or testing new systems. They do it to reduce costs but they also want to keep the pressure on the internal IS department by providing competition. In Stage 4, Proactive Strategic Focus, management no longer sees offshore outsourcing as simply a source of low-cost labor. They see it as a strategy to spur innovation, develop new products, and explore new markets. Although researchers believe Stage 5's is where most U.S. companies are currently, Stage 4 is becoming more of a reality every day as the business world becomes increasingly global and companies are more sophisticated and able to manage global operations.

OFFSHORING BENEFITS

By far the primary reason for offshoring IT work is to reduce operating costs, which can approach 50 percent in some cases, because hourly rates for workers in Asia and other emerging markets are anywhere from 30 to 75 percent lower than they are in the United States. Another benefit includes improved flexibility, 24/7 operating hours, and reduced time to complete work. Even though some of these savings are offset by the costs incurred to manage outsourcing arrangements (as described below), most companies still experience substantial cost reductions.

Proponents of offshoring say these cost savings bring large benefits to the U.S. economy. Sunil Mehta, vice president of the National Association of Software and Service Companies (Nasscom) in India, estimates that U.S. companies will save up to $11 billion in 2004 by outsourcing to India and that India will purchase $3 billion in high-tech imports from the United States (Koch, 2003). Nasscom also reports that at least 185 of the Fortune 500 have outsourced at least part of their operations to India in 2003. The U.S. banking industry alone has saved $6 to 8 billion annually by outsourcing to India according to Stern et al. (2003). Lower costs to produce IT products and services are expected to have a direct effect on prices for consumers.

According to Behroz Abdi, a vice president at Motorola, Inc., outsourcing is not just

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about cost benefits from lower salaries; by outsourcing to a highly skilled, readily available labor force overseas, companies can also improve their ability to compete in their fast-paced domestic and international markets (Wilson, 2003). According to John Chen, chairman, chief executive, and president of Sybase, the number-one driver is human capital, or getting the right people, and market access. In this increasingly global economy, having workers overseas in close proximity to a new pool of consumers can assist a company in expanding its global presence.

John McCarthy, group director of research for Forrester Research, Inc., believes higher quality of work is another reason CIOs are outsourcing (Gaudin, 2002):

India is a culture more focused on quality and process than America is. They tend to be much more disciplined. They’ve done the most to turn IT development away from the mystical black art to a real business process.

For example, a 2000 worldwide survey found that 25 of the 36 major firms that have reached a level-5 maturity level of the Software Capability Maturity Model (CMM) were located in India. (For background on the CMM, see the textbox below.) The other 11 firms were in the United States and mostly were suppliers to federal defense and aerospace departments, not to the commercial software sector.

The Carnegie Mellon Software Engineering Institute defines the CMM as “a model for judging the maturity of the software processes of an organization and for identifying the key practices that are required to increase the maturity of these processes.” The Software CMM has five levels of maturity, with each successive level providing processes and tools for an organization to improve quality and productivity. A 1994 study of the CMM identified impressive improvements in organizations moving from level 1 to level 3, including returns on investments of 5 to 1 and 7.7 to 1. There were also decreases in rework costs by 75 percent, 20 percent decreases in quality costs, a 190 percent increase in productivity, and a decrease in problem report rates per thousand lines of code.

To many CIOs and business executives, the decision to outsource activities offshore is therefore fiscally sound:

- The cost, quality, value, and process advantages are well proven.
- At a time when IS organizations are struggling with poor credibility and IT is being scrutinized, offshore outsourcing is becoming a tool for improving service delivery and a source of highly qualified talent in greater numbers.
- The extensive use of quality methodologies among offshore vendors — such as CMM, People CMM, and ISO 9000 — enables a degree of assurance that many in-house organizations lack.

OFFSHORING STATISTICS

CIO Magazine conducted a survey on offshore outsourcing in 2003 (Ware, 2003). The 101 respondents included CIOs, CTOs or vice presidents in charge of IT, and directors/managers of IT from a wide range of industries, such as computer-related, manufacturing, finance/banking/accounting, insurance/real estate/legal, medical/dental/healthcare, and government; a majority of the respondents worked at companies with more than 10,000 employees and revenues greater than $1 billion. According to this survey, the trend toward offshore outsourcing has only just begun, 67 percent of respondents indicating they did not begin offshore outsourcing until after 2000. India was the major destination (89 percent have work done there), labor costs were the biggest area for savings (86 percent of respondents), and application development was the main activity (80 percent of respondents). The survey shows an increasing trend in outsourcing a larger percentage of all of the identified functions or processes offshore over the next 12 months, with help desk functions increasing the most (16 percent) and system administration next (11 percent).

According to Gartner, the survey in 2003, 80 percent of companies say they will have considered shifting U.S. IT jobs overseas, and 50 percent of all U.S. organizations will have completed some type of pilot or will source IT services from non-U.S.-based service providers (Leung, 2003). Hyman mentioned that a report released by Forrester Research, Inc. in 2003 estimates that the percentage of offshore outsourcing for U.S. IT budgets took a leap from 12 percent in 2000 to 28 percent in 2003 and that nearly 1 million IT-related jobs will move offshore over the course of the next 15 years. According to John McCarthy, group director of research for Forrester Research.
Gradually, you're going to see an increase in the pace of this. It's already been happening. GE has been offshoring for almost 10 years now. The size of the deals, the number of deals, that's what is increasing.

De Ramos reports that as of 2003, India is the overall outsourcing leader, followed by Ireland, the Philippines, and China. India has 500,000 outsourcing workers and some of the largest vendors are Tata Consultancy Services, Wipro Technologies, Infosys Technologies, Satyam Computer Services, and Cognizant Technology Solutions. China is rapidly gaining ground; in the next three to five years, China and India may receive almost the same amount of revenue — about $27 to $30 billion — from IT outsourcing according to Gartner Research, Inc. in 2003. China's labor costs are currently about 40 percent less than India, but that gap is expected to widen as India's labor pool may demand higher wages. However, China's strength lies in programming and the country is currently far behind India in business process outsourcing capabilities.

Offshoring services began with nonstrategic services, such as maintaining current systems and some basic application development, and have expanded immensely in recent years. As the CIO survey discussed earlier indicated, companies are expanding their use of offshore outsourcing to include call centers for customer service such as processing insurance claims, loans, bookings, and credit card bills, help desks, system administration and support, and business processes such as human resources or financial applications. Offshore providers are getting more experienced at dealing with U.S. corporations so it's only natural that the next step would be moving up the value chain of services, that is, business process outsourcing, call centers, and network infrastructure management. IT skillsets most likely to remain in-house include application design and integration, enterprise architecture, information management, client-facing process management, and business integration (Traylor, 2003).

OFFSHORING COSTS AND RISKS

Although offshore outsourcing can lower some costs (mainly IT wages), it creates new up-front expenses including vendor selection costs, legal/contract costs, and the cost to transition work to outsourcing providers (Overby, 2003). Vendor selection costs can range anywhere from .2 to 2 percent of the project and include documenting requirements, sending out RFPs and evaluating responses, and negotiating a contract. A project manager may be working full time on this, representing opportunity costs for the company. Legal costs can quickly escalate because the entire vendor contracting process can take up to a year depending on the nature of the relationship. Travel also becomes a factor, because thorough vendor due diligence requires on-site inspections.

The transition period is perhaps the most expensive stage of an offshore relationship. It can take from three months to a full year to completely hand the work over to an offshore partner. Knowledge transfer can include bringing offshore developers to the U.S. headquarters to analyze the technology and architecture before heading back to their home country to begin the actual work, and having in-house trainers working side-by-side with offshore employees to minimize costly mistakes in the start-up. Once the training is complete, then companies face the cost of laying off the U.S. trainers. This usually involves severance and retention bonuses to get them to stay long enough to share their knowledge.

The offshore contract also needs to be managed, including invoicing, auditing, ensuring cost centers are charged correctly, and making sure time is properly recorded (Overby, 2003). Managing the contract goes beyond the direct financial aspects as well, encompassing communications, expectations, and governance.

Gartner urges CIOs and other business executives not to trivialize the impact of offshore outsourcing on their business strategies, their organizations, or their employees (Morello, 2003). Three areas of concern arise:

- **Loss of future talent.** CIOs cannot afford to have domestic IT talent "dry up" because when investment resumes and the economy rebounds, CIOs will need a lot of seasoned IT professionals and new recruits to generate new ideas, new investments, and new programs.

- **Loss of intellectual assets.** The loss of critical knowledge is seen as the greatest source of workforce-related risk around outsourcing.

- **Loss of organizational performance.** Offshoring weakens the already fragile relationships between employees and employers. Continued job loss will affect a company's ability to perform efficiently because they will be spending a lot of time dealing with people issues.
Phil Friedman, president and CEO of Computer Generated Solutions, has also suggested that offshore outsourcing could pose a security threat to the United States (Information Week, 2003). According to Gartner, protecting strategic processes and maintaining critical knowledge is the greatest source of workforce-related risk around outsourcing. Six areas of core knowledge that they identify as worth protecting are:

- **Enterprise knowledge** — how products, services, and systems blend together
- **Cultural knowledge** — how things are done, beliefs, who makes decisions
- **Social network knowledge** — which roles and which people form critical connective links
- **Strategic knowledge** — what are objectives and competitive advantages
- **Industry and process knowledge** — how the industry, competitors, and customers operate
- **Activity knowledge** — which people are doing what today

### POLITICAL ISSUES

The surge in offshore outsourcing, coupled with a slowdown in the U.S. economy, has spurred much debate on the appropriate role for the U.S. government to reduce the outflow of IT jobs. The Bush administration has stated that it sees pros and cons in the trend towards offshore outsourcing, but it has no plans to impede companies’ efforts to move IT jobs to India or elsewhere; instead, it plans to focus on developing an economic climate that helps create jobs in the United States (Thibodeau, 2003a). Intel CEO Craig Barrett and Hewlett-Packard chief Carly Fiorina have defended the practice of offshore outsourcing as a means for accessing new business opportunities and talent in other regions of the world (Sullivan, 2003). Rather than limit offshore outsourcing, these two business leaders believe the U.S. government is not doing enough to foster, attract, or retain top IT talent and the government needs to increase its efforts to make the country more competitive against other nations.

On the other side of the fence, however, are domestic lobbies, such as labor unions, members of the affected domestic industries, and articulate professionals who are losing their jobs through offshore outsourcing. These groups are pushing for protectionist measures, including prohibitions on offshore outsourcing of state services and a tightened federal visa regime that would limit offshore outsourcing. At the center of the political attention toward offshore outsourcing are the increased security procedures and rules surrounding the immigration of foreign workers, specifically the requirements relating to the H-1B and L-1 visas.

The H-1B visa allows foreign workers who are deemed professionals to work in jobs requiring special skills. The H-1B has traditionally been the vehicle of choice for U.S. businesses hiring foreign technology experts, although it has declined in importance, as evidenced by a nearly 40 percent drop in new H-1B applications in 2002. Also, in September 2003 activists were able to garner bipartisan support in Congress to let lapse a measure that had temporarily boosted the number of work visas issued to foreign professionals, often from India, to 195,000 from the normal 65,000 (Schoedler and Aeppl, 2003). The reinstated lower limit will become effective in 2004.

An alternative to the H-1B is the L-1 visa for offshore vendors. The L-1 was designed to allow multinational corporations to transfer key personnel with “specialized” or “expert” knowledge to U.S. affiliates. So, for example, an outsourcing vendor with its primary place of business in India may send an individual with specialized or expert knowledge to its U.S. subsidiary to assist in serving a U.S. client. A key issue regarding computer programmers is whether they have such specialized or expert knowledge. Critics have argued that offshore workers cannot possibly possess specialized knowledge because they are performing the same job function as displaced U.S. workers; however, the deciding factor is more a matter of sufficiently advanced know-how rather than unique skills.

Three advantages of L-1s are (Stern et al., 2003):

- They are easier to obtain because companies go through U.S. embassies rather than going through the Bureau of Citizenship and Immigration Services.
- There is currently no annual cap on the number allowed.
- Unlike H-1Bs that require employers to offer wages and benefits that are comparable to those of U.S. workers, the L-1 workers can be kept on a foreign payroll and maintain the wage and benefits of their home country.

Due to these advantages, the number of L-1 visas has grown dramatically since 2000 and has raised considerable debate in Congress. There are currently several bills being proposed that...
would limit the number of L-1s to just 35,000 a year (there were 514,000 issued in 2002), establish wage requirements, place prohibitions on L-1 holders replacing U.S. workers, and even introduce prohibitions on outsourcing.

Opponents to limiting visas point out that U.S. companies would likely circumvent any restrictive laws by minimizing investments in their U.S.-based operations and locate future facilities and operations completely abroad. Outsourcing vendors would also minimize their U.S. investments and become as self-sufficient as possible, as opposed to being integrated with their U.S. customers' operations. This would likely have the unintended long-term effect of reducing U.S. jobs.

Mehta (from Nasscom) argues that trade protectionism has not helped other American industries such as the steel industry, where employment has declined 80 percent since its peak, nor has it helped steel-consuming industries in the United States that were forced to pay high prices for steel (Koch, 2003). He therefore claims that offshore outsourcing is mutually beneficial from a total economic perspective.

EFFECTS ON U.S. TECHNOLOGY JOBS

Since 2001, according to the U.S. Bureau of Labor Statistics, more than 500,000 people in IT professions in the United States have lost their jobs. Some of these job losses were related to the dot.com bust, cost cuts, shrinking budgets, a poor economy, and a desire to satisfy shareholders quarter to quarter. Now, however, a growing number of IT professionals are having their jobs displaced as IT work moves offshore. The Information Technology Association of America (ITAA) has reported that hiring managers say they will look to fill 493,131 jobs from May 2003 to May 2004 (Information Week, September 24, 2003). Contrast this with the fact that in 2000, U.S. companies hired 1.6 million IT workers domestically.

In the years between the end of the U.S. recession in the mid-1990s and the dot.com bust of 2000, IT unemployment hovered around 2 percent, whereas overall joblessness averaged several percentage points higher. During the first nine months of 2003 the IT unemployment rate averaged 5.8 percent and overall unemployment averaged 6.1 percent. How much of this percentage increase is related to outsourcing is unclear. Most experts agree that the biggest cause of job losses has been the U.S. economic downturn. However, some estimates put the number of IT engineers in Bangalore at 150,000 whereas Silicon Valley has 120,000.

In all, the Bureau of Labor Statistics reports that 234,000 IT professionals were unemployed as of 2003. With younger IT professionals more likely than their older colleagues to master new skills, it’s the aging technologists with dated skills who are most threatened by offshore outsourcing; for example, nearly 6.9 percent of IT workers in their 50s are unemployed. The percentage level of unemployment also differs based on job classification. The jobless rate among U.S. software engineers has more than doubled, to 4.6 percent, in three years; the rate is 6.7 percent for electrical engineers and 7.7 percent for network administrators.

As more application coding and other IT jobs are outsourced offshore, there is increasing concern among the industry about the ability of the United States to remain competitive in terms of innovation and IT skills. As reported by Koch (2003), Ron Hira, chairman of the R&D policy committee with the U.S. branch of the Institute of Electrical and Electronics Engineers (IEEE) has warned:

The reason U.S. companies can innovate without spending much on R&D is that they are learning each time they do an implementation. You build up that knowledge in those workers, and there’s spillover as they move into other sectors, start new software companies or take a permanent job with a client. If we don’t have that knowledge base here, we will lose out on that innovation and spillover.

Backlash
Collective bargaining and organized labor protests are popping up in the IT industry in response to jobs being lost to offshore outsourcing. According to Kcuttel (2003), Marcus Courtney, president of the Washington Alliance of Technology, who began organizing Microsoft contract (temporary) workers during the 1990s, has concluded:

Today, high-level skills and education are no guarantee of security. Trying to stay one step ahead of corporations sending tens of thousands of jobs overseas isn’t a skills issue. Companies are
With no visible sign that companies will decrease their level of outsourcing in the near future, the likelihood of continued organized protests by IT professionals remains strong.

Some professionals have formed groups to speak out against the increasing professional job losses in recent years. One such group is called The Organization for the Rights of American Workers (TORAW), founded by Connecticut workers and managers representing information technology specialists. In June 2002, dozens from TORAW and similar groups from across the country held a two-day demonstration outside the Strategic Outsourcing Conference in New York City. The same month, other laid-off workers demonstrated outside an outsourcing conference at the Hynes Convention Center in Boston. With no visible sign that companies will decrease their level of outsourcing in the near future, the likelihood of continued organized protests by IT professionals remains strong.

Some business leaders openly support outsourcing (e.g., Intel CEO Craig Barrett and Hewlett-Packard chief Carly Fiorina as mentioned earlier), however, many CIOs are cautious about publicly endorsing offshore outsourcing that, according to public perception, takes jobs away from U.S. citizens. Some of their fears include Americans boycotting their products, opposition to globalization in the United States (including anti-visa and anti-immigration themes), continued drop in employee morale, general dissatisfaction among remaining staff, and a strong white-collar labor movement that could mean increased employer-employee management issues.

Other views are more broad-reaching, such as the beliefs of Phil Friedman, president of Computer Generated Solutions, who believes that outsourcing companies are neglecting a moral responsibility to employees and could leave the United States without the skills needed to support its infrastructure. Some argue that offshore outsourcing poses an economic danger as well. Forrester Research estimates that over the next 12 years, 3.3 million jobs accounting for $100 billion in wages will move offshore. Such statistics may be fueling some responses at the state government level, for example, New Jersey recently banned offshore outsourcing of state government work.

**Globalization Arguments**

Despite the backlash fears, many CIOs see the move offshore as inevitable given the ongoing globalization of business. According to Jeff Campbell, vice president of technology services and CIO of Burlington Northern Santa Fe Railway (Koch, 2005):

> You can fight global trade with tariffs, but long term it just doesn’t work....You have to meet cost challenges or you won’t provide shareholder returns. We are intertwined with the global economy now, so the question is how to embrace that and move forward.

A recent McKinsey study, cited by Schroeder and Appel (2003), concluded that at least two thirds of the economic benefit from sending jobs offshore flows back to the U.S. economy in the form of lower prices, expanding overseas markets for U.S. products, and bigger profits that U.S. companies can reinvest into more innovative businesses. There are also the benefits that U.S. consumers receive from 24-hour-a-day call centers that have become more efficient because of offshore support in other time zones. In addition, U.S.-based workers can also derive benefits by having continuous support through integrated U.S.-based and offshore-based staff in other time zones.

Some believe that allocating resources offshore through outsourcing is necessary for most companies to maintain competitiveness in a global economy. Putting up roadblocks to outsourcing may save some U.S. jobs in the short run but it may also hurt U.S. consumers, hurt U.S. companies' ability to compete globally, and discourage U.S. workers from learning and developing more sophisticated skills and technologies.

**FUTURE PREDICTIONS**

By all accounts outsourcing appears to be here to stay. There is just too much cost savings for companies to ignore when they're trying to survive in a very competitive, global market. A recent report by Kripalani and Engardio (2003) suggests that the cost of transmitting work offshore is expected to plummet by 60 percent when two undersea cables being built by India come online by the end of 2004. Indeed, various predictions of offshore outsourcing all indicate continued increases.
Outsourcing

Gartner preliminarily believes that another 500,000 IT jobs may disappear by year-end 2004.

Offshore outsourcing of traditional IT work will grow 20 percent to 25 percent each year in the next few years, from its current market value of roughly $20 billion, according to Atul Vashishta, CEO of San Ramon, California-based offshore advisory firm NeoIT (Traylor, 2003).

According to a May 2003 survey by CIO Magazine, 68 percent of the more than 100 executives who responded said their offshore contract would increase an average of 18.7 percent during 2003 (Koch, 2003).

John McCarthy, group director of research for Forrester, says there will be a wave of jobs moving offshore over the next 16 months. He then predicts a two-year slowdown while corporate executives digest the economies of the move, and then there will be acceleration in jobs moving to other countries from 2005 through 2015 (Gaudin, 2002).

Forrester predicts that the number of IT jobs sent overseas will rise from 27,000 in 2000 to almost 109,000 by 2005 (Kueffel, 2003).

Oracle and Microsoft intend to double their India-based workforce, and Accenture already has 4400 employees in China, India, the Philippines, and Russia. Electronic Data Systems has more than 15 offshore development centers (Kueffel, 2003).

Gartner preliminarily believes that, based on the ITAA's count of 10.3 million IT practitioners in the United States in 2003, another 500,000 IT jobs may disappear by year-end 2004. Additional predictions indicate that through 2005 fewer than 40 percent of people whose jobs are moved to emerging markets will be redeployed by their current employers (Morello, 2003).

Consulting firm McKinsey & Co. forecasts by 2008 IT services and back-office work in India will swell fivefold, to a $57 billion annual export industry employing 4 million people and accounting for 7 percent of India's gross domestic product (Kripalani and Engardio, 2003).

Business Process Outsourcing (BPO) Predictions

Gartner estimates business process outsourcing will increase from $110 billion in 2002 to $173 billion in 2007. An Accenture/Economist Intelligence Unit survey of senior executives at 236 global companies revealed that 30 percent outsourced finance and accounting functions (Traylor, 2003). These tend to be among the most common to be moved offshore. In 2004, the tax returns of some 20,000 Americans were prepared by $500-a-month CPAs. Next year, up to 200,000 U.S. returns will be done in India, says CCH Inc. in Riverwoods, Illinois, a supplier of accounting software. Deloitte Research predicts that by 2008, $356 billion in costs for worldwide financial-service firms will have moved offshore (Information Week, 2003).

Healthcare is another industry utilizing offshore business process outsourcing. Vision Healthsource, with facilities in Chennai, India, guarantees its customers 40 to 60 percent in payroll savings for completing medical billing. Staff post payments directly into clients' hospital information-management systems, identify patient accounts that require follow-up, and rectify problems with insurance carriers. Medical transcription is easily moved offshore, especially because many medical professionals already send their dictated notes off-site to be transcribed and returned electronically to their patients' charts. Gartner believes the next wave of outsourcing in India could be for big pharmaceuticals companies in the United States and Europe to choose India as an offshore location for downstream drug-discovery efforts. Telemarketing is yet another business avenue that has seen much movement overseas, with no foreseeable end in sight. Time zone differences and clear, concise English-speaking employees make India an economical alternative for many telemarketing firms.

CONCLUSION

Outsourcing has become a strategic alternative for many companies: executives tout the cost savings and subsequent equity returns for investors and the benefits consumers reap in the form of lower prices. However, others point to the loss of IT jobs and intellectual capital as economic concerns. As with other market changes, the key to survival is learning how to meet the challenges and find ways to capitalize on the evolving business landscape. In other words, continued innovation will play a large role in how well the U.S. IT industry emerges from the outsourcing boom.

References
